



Memorandum

TO: Terry Piekarz, Municipal Utilities Director
FROM: Bill Greene, City Auditor (X8982)
CC: Andrew Ching, City Manager
Steven Methvin, Deputy City Manager, Chief Operating Officer
Ken Jones, Deputy City Manager, Chief Financial Officer
Rosa Inchausti, Deputy City Manger
DATE: June 28, 2021
SUBJECT: LIMITED REVIEW: Compost Yard Cash Handling

Purpose

At the request of the Municipal Utilities Director, we conducted a limited review of the Compost Yard cash handling processes to identify potential improvements to internal controls.

Background

As part of our annual audit planning process, the City Auditor meets with senior management to discuss emerging risks and areas of concern. Limited Reviews were included as a new component of our FY 20/21 Annual Audit Plan to address some of the concerns raised by management and expand Citywide audit coverage. To conserve audit resources, these reviews are planned and executed using a targeted approach to address specific risks rather than a full-scope audit.

The City's Compost Yard operates out of a single facility located at Rio Salado Parkway and Hardy Avenue. Tempe is the first city to process its own compost and provide affordable options to residents, use in city parks, golf courses, community gardens, and schools. The program diverts green organics from the landfill and reduces disposal costs. In fiscal year 19/20 the Compost Yard generated approximately \$216,000 in revenue.

Scope and Methods

The objective of this consulting engagement is stated in the purpose above. The work performed does not constitute an audit in accordance with *Government Auditing Standards*. An audit would have required additional steps such as the substantive testing of relevant internal controls, validation of data and information provided to the Internal Audit Office (IAO), and additional engagement file documentation.

We employed the following methods to complete this engagement:

- Reviewed existing policies and procedures;
- Identified existing relevant internal controls;
- Interviewed staff;
- Reviewed general ledger reports and supporting documentation.

Results

1. Cash Handling

Relevant City Policies:

There are currently no citywide written cash handling policies to guide departments on appropriate processes. The IAO recommended the development of a citywide policy in our *Cash Handling Audit* issued March 12, 2020. Finance staff indicted development of procedures is included in their work plan. Municipal Utilities Solid Waste also does not have any cash handling policies or procedures. IAO will provide a few policy examples to use as guidance in new policy development.

Review of Existing Conditions:

To assess existing conditions, we visited the Compost Yard to observe transactions and view a weekly reconciliation process. We also reviewed previous reconciliation data from the Municipal Utilities Program Coordinator. We identified the following conditions based on our onsite review and data provided:

- Payment Practices:
 - An official City cash fund has not been established for Compost Yard operations.
 - Discrepancies exist in payment amounts compared to required charges. Customer charges and related payment amounts are frequently rounded down to accommodate inability to make accurate change for customers.
 - Money collected is unsecured and stored in an envelope until the end of the workday.
 - Tickets are keyed into an excel document to record incoming and outgoing transactions. The excel document is available and open for editing to staff.
- Facility Security:
 - Drop safe is stored in unlocked room accessible to all staff. Daily deposits are stored in the safe and are processed weekly for drop off to the Customer Services cashiering office.
 - Scale house is unlocked during business hours and is openly accessible to staff and public.
 - There are no cameras in place at the facility to record financial

- transactions.
- No robbery protocol in place for the cashiering area.

Existing Controls:

1. Security
 - a. There is a drop safe onsite for daily deposits. The safe has been reinforced to aid in preventing removal from facility.
 - b. The Compost Yard scale house has external locks and is in gated area.

Additional Controls to Consider:

1. Develop a cash handling policy that addresses the primary functions of cash handling and security including:
 1. Separation of duties
 2. Security of funds
 3. Receipting
 4. Training
 5. Overages and Shortages
 6. Depositing
 7. Reconciliation
2. Establish a cash/change fund with Finance/Accounting.
3. Consult with the Tempe Police Department to receive a security assessment for the facility.
4. Work with Information Technology to assess opportunities to use other point of sale systems currently deployed in the City for Compost Yard transactions.

2. **Revenue Reporting**

Overview of Operations:

Our review of revenue from cost center 3719-Diversion showed a high use of GL reclassifications to account for dropping off green organics materials and the purchase of compost through interdepartmental transactions. Revenue for incoming green organics and outgoing compost is tracked in a spreadsheet from data entered from weigh tickets at the Compost Yard. This Information is collected for incoming and outgoing transactions and account information for CC&B (the system used primarily to bill water, wastewater, refuse). This is then sent to the Operations team for sorting and is redistributed to Customer Services for CC&B billing and to the Solid Waste administrative assistant for a GL reclassification for interdepartmental transactions. The GL reclassifications often consist of multi-line items which include the account, fund, cost center and transaction amount which are then entered into a form and sent to accounting for processing. This process introduces a high potential for error during data entry.

The information on revenue collected for incoming and outgoing transactions at the compost yard and billing entries for CC&B is used for GL reporting processes

through GL reclassifications and subsystem reporting through CC&B, but no reconciliation is performed. Ensuring accurate accounting of revenue is essential for goods and services rendered. The analysis of revenue will provide insight to the overall financial health of the program and confirm revenue is appropriately collected and recorded. Regular reconciliations are an important control function over a revenue cycle process.

Review of Existing Conditions:

To assess existing conditions, we reviewed data from PeopleSoft Financials for fiscal year 20/21. We also interviewed staff to document business processes. This data demonstrated the following characteristics related to revenue reporting:

- High potential for error in reliance on data entry through spreadsheets and GL reclassifications.
- There is no reconciliation process for revenue.

Additional Controls to Consider:

1. Assign responsibility to a MU employee to reconcile revenue.
2. Evaluate the use of CC&B to bill interdepartmental compost purchases and material drop off.